SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1999

or

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 000-26422

DISCOVERY LABORATORIES, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	94-3171943
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
350 South Main Street, Suite 307 Doylestown, Pennsylvania	18901
(Address of principal executive offices)	(Zip Code)

Registrants' telephone number, including area code: (215) 340-4699

Securities registered under Section 12 (b) of the Exchange Act: None

Securities registered under Section 12 (g) of the Exchange Act:

Common Stock, par value $.001 per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. |X| Yes |_| No

As of November 12, 1999, 9,679,964 shares of Common Stock, par value $.001 per share, were outstanding.

Documents incorporated by reference: None.
Transitional Small Business Disclosure Format: / / Yes /X/ No

DISCOVERY LABORATORIES, INC.

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DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development company)

Consolidated Balance Sheets

	September 30, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,688,000	$ 1,474,000
Marketable Securities	1,405,000	2,544,000
Other receivables	53,000	
Inventory	575,000	575,000
Prepaid expenses	13,000	203,000
Total current assets	3,734,000	4,796,000
Property and equipment, net of depreciation	438,000	326,000
Security deposits	18,000	18,000
	$ 4,190,000	$ 5,140,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 542,000	$ 1,088,000
Commitments		
Stockholders' Equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized:		
Series B convertible; 1,610,006 and 1,946,881 shares issued and outstanding at September 30, 1999 and December 31, 1998, respectively (liquidation preference $21,735,000 at September 30, 1999)	2,000	2,000
Series C redeemable convertible; 2,039 shares issued and outstanding (liquidation preference $2,430,000)	2,430,000	2,277,000
Common stock, $.001 par value; 20,000,000 authorized; 9,106,838 and 5,085,281 shares issued and outstanding at September 30, 1999 and December 31, 1998 respectively	9,000	5,000
Treasury stock (at cost 2,000 and 15,600 shares of common stoc at September 30, 1999 and December 31, 1998, respectively)	(5,000)	(39,000)
Additional paid-in capital	33,194,000	29,842,000
Unearned portion of compensatory stock options	(37,000)	(124,000)
Deficit accumulated during the development stage	(31,951,000)	(27,930,000)
Accumulated other comprehensive income: unrealized gain on marketable securities available for sale	6,000	19,000
Total stockholders' equity	3,648,000	4,052,000
	$ 4,190,000	$ 5,140,000

See notes to financial statements

DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		May 18, 1993 (Inception) Through September 30, 1999
	1999	1998	1999	1998	
Interest/Other income	$ 105,000	$ 127,000	$ 172,000	$ 353,000	$ 1,484,000
Expenses:					
Write-off of acquired in-process research and development and supplies				8,230,000	13,508,000
Research and development	449,000	846,000	2,340,000	4,203,000	12,313,000
General and administrative	378,000	503,000	1,700,000	1,925,000	7,034,000
Interest					11,000
Total expenses	827,000	1,349,000	4,040,000	14,358,000	32,866,000
	(722,000)	(1,222,000)	(3,868,000)	(14,005,000)	(31,382,000)
Minority interest in net loss of subsidiary				24,000	26,000
Net loss	(722,000)	(1,222,000)	(3,868,000)	(13,981,000)	(31,356,000)
Other comprehensive income:					
Unrealized gain on marketable securities available for sale	(1,000)	0	(6,000)	0	13,000
Total comprehensive loss	$ (723,000)	$ (1,222,000)	$ (3,874,000)	$(13,981,000)	$(31,343,000)
Net loss per share - basic and diluted	$ (0.09)	$ (0.28)	$ (0.49)	$ (3.85)	
Weighted average number of common shares outstanding	8,415,000	4,356,000	7,945,000	3,635,000	

See notes to financial statements

DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Changes in Stockholders' Equity
December 31, 1998 through September 30, 1999

	Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount
Balance - 12/31/98	5,085,281	$ 5,000	(15,600)	$ (39,000)
Exercise of stock options	109,895	$ -		
Series B preferred stock converted	1,048,777	$ 1,000		
Issuance of common stock issued in payment of accounts payable	11,650	$ -		
Dividends payable on Series C Preferred Stock				
Treasury Stock issued in payment of Accounts Payable	-	$ -	15,600	$ 39,000
Common Stock issued pursuant to April 1999 Financing	826,443	$ 1,000		
Treasury stock acquired			2,000	$ (5,000)
Fair Value of Options Granted		$ -		
Amortization of unearned portion of compensatory stock				
Amortization of unearned portion of compensatory stock		$ -		
Common Stock issued pursuant to July 1999 private placement	2,024,792	$ 2,000		
Net Loss				
Balance - 09/30/99	9,106,838	9,000	2,000	(5,000)

	Preferred Stock				
	Series B		Series C		
	Shares	Amount	Shares	Anount	Additional Paid In Capital
Balance - 12/31/98	1,946,881	$ 2,000	2,039	$ 2,277,000	$ 29,842,000
Exercise of stock options					$ 12,000
Series B preferred stock converted	(336,875)	$			$ -
Issuance of common stock issued in payment of accounts payable					$ 33,000
Dividends payable on Series C Preferred Stock				$ 153,000	$
Treasury Stock issued in payment of Accounts Payable					
Common Stock issued pursuant to April 1999 Financing					$ 999,000

Treasury stock acquired					
Fair Value of Options Granted					$ 37,000
Amortization of unearned portion of compensatory stock					
Amortization of unearned portion of compensatory stock					
Common Stock issued pursuant to July 1999 private placement					$ 2,271,000
Net Loss					
Balance - 09/30/99	1,610,006	2,000	2,039	2,430,000	$ 3,194,000

	Unearned Portion of Compenstory Stock Options	Accumulated other Comprehensive Income	Deficit Accumulated during Development Stage	Total
Balance - 12/31/98	$ (124,000)	$ 19,000	$ (27,930,000)	$ 4,052,000
Exercise of stock options				$ 12,000
Series B preferred stock converted				$ 1,000
Issuance of common stock issued in payment of accounts payable				$ 33,000
Dividends payable on Series C Preferred Stock			$ (153,000)	$ -
Treasury Stock issued in payment of Accounts Payable				$ 39,000
Common Stock issued pursuant to April 1999 Financing				$ 1,000,000
Treasury stock acquired				$ (5,000)
Fair Value of Options Granted	$ (37,000)			$ -
Amortization of unearned portion of compensatory stock	$ 9,000			$ 9,000
Amortization of unearned portion of compensatory stock	$ 115,000			$ 115,000
Common Stock issued pursuant to July 1999 private placement				$ 2,273,000
Net Loss		(13,000)	(3,868,000)	$ (3,881,000)
Balance - 09/30/99	(37,000)	6,000	(31,951,000)	$ 3,648,000

DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,		May 18, 1993 (Inception) Through September 30,
	1999	1998	1999
Cash flows from operating activities:			
Net loss	$(3,868,000)	$(13,981,000)	$(31,356,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write-off of acquired in-process research and development and supplies		8,230,000	13,508,000
Write-off of licenses			683,000
Depreciation and amortization	60,000	27,000	189,000
Compensatory stock options	124,000		142,000
Changes in:			
Prepaid expenses and other current assets	137,000	(10,000)	(35,000)
Accounts payable and accrued expenses	(473,000)	374,000	409,000
Other assets			(18,000)
Expenses paid on behalf of company			18,000
Expenses paid using treasury stock			51,000
Employee stock compensation			42,000
Reduction of research and development supplies			(161,000)
Net cash used in operating activities	(4,020,000)	(5,363,000)	(16,528,000)
Cash flows from investing activities:			
Acquisition of furniture and equipment	(172,000)	(39,000)	(604,000)
Proceeds from disposal of furniture and equipment	25,000	25,000	
Acquisition of licenses	(711,000)		
Purchase of investments	(1,000,000)	(732,000)	(21,745,000)
Proceeds from sale or maturity of investments	2,126,000	2,763,000	20,751,000
Net cash payments on merger	(226,000)	(1,670,000)	
Net cash provided by (used in) investing activities	954,000	1,791,000	(3,954,000)
Cash flows from financing activities:			
Proceeds on private placements of units, net of expenses	3,273,000	22,198,000	
Purchase of treasury stock	(5,000)	(51,000)	(95,000)
Collections on stock subscriptions and proceeds on exercise of stock options	12,000	27,000	67,000
Net cash (used in) provided by financing activities	3,280,000	(24,000)	22,170,000
Net (decrease) increase in cash and cash equivalents	214,000	(3,596,000)	1,688,000
Cash and cash equivalents - beginning of period	1,474,000	6,297,000	
Cash and cash equivalents - end of period	$ 1,688,000	$ 2,701,000	$ 1,688,000
Noncash transactions:			
Accrued dividends on ATI preferred stock	$ 153,000	$ 153,000	$ 595,000
Accounts Payable settled using treasury stock	39,000		39,000
Common stock issued to settle payables	34,000		34,000
Preferred Stock issued for inventory			575,000

See notes to financial statements

NOTE 1 - THE COMPANY AND BASIS OF PRESENTATION

The Company

Discovery Laboratories, Inc. (the "Company") was formed to license and develop pharmaceutical products to treat a variety of human diseases. The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, ATI. All intercompany balances and transactions have been eliminated.

The accompanying unaudited, consolidated, condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information in accordance with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered for fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 1999 are not necessarily indicative of the results that may be expected for the year ended December 31, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 1998 Annual Report on form 10-KSB/A.

The Company's activities since incorporation have primarily consisted of conducting research and development, performing business and financial planning and raising capital. Accordingly, the Company is considered to be in the development stage, and expects to incur increasing losses and require additional financial resources to achieve commercialization of its products.

The Company also depends on third parties to conduct research on the Company's behalf through various research agreements. All of the Company's current products under development are subject to license agreements that will require the payment of future royalties.

Net Loss Per Share

Net loss per share is computed based on the weighted average number of common shares outstanding for the periods and common shares issuable for little or no cash consideration. Common shares issuable upon the exercise of options and warrants and the conversion of convertible securities are not included in the calculation of the net loss per share as their effect would be antidilutive.

Restatement of Previously Issued Financial Statements

In October 1996, pursuant to a licensing agreement with Johnson & Johnson, Inc.'s ("J&J") wholly owned subsidiary Ortho Pharmaceuticals, Inc., J&J contributed manufacturing equipment and raw material inventory in exchange for 2,039 shares (originally 2,200 shares) of the Company's non-voting Series B preferred stock which had a liquidation preference of $ 2,039,000. The equipment and inventory was charged to operations as acquired in-process research and development and supplies during the year ended December 31, 1996. However, certain of this raw material inventory, valued at approximately $575,000, which was then located at the vendor had an alternative future use in that the inventory could be sold to other users and was in excess of the quantity required for the Company's research and development purposes. The Company had arranged with the vendor to defer delivery of the product. Previously issued financial statements have been restated to reflect capitalizing such inventory effective December 31, 1996 and a corresponding reduction in deficit accumulated during the development stage.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Plan of Operations

Since its inception, the Company has concentrated its efforts and resources on the development and commercialization of pharmaceutical products and technologies. The Company has been unprofitable since its inception and has incurred a cumulative net loss of approximately $31,356,000 as of September 30, 1999. The Company expects to incur significantly increasing operating losses over the next several years, primarily due to the expansion of its research and development programs, including clinical trials for some or all of its existing products and technologies and other products and technologies that it may acquire or develop. The Company's ability to achieve profitability depends upon, among other things, its ability to discover and develop products, obtain regulatory approval for its proposed products, and enter into agreements for product development, manufacturing and commercialization. None of the Company's products currently generates revenues and the Company does not expect to achieve product revenues for the foreseeable future. Moreover, there can be no

assurance that the Company will ever achieve significant revenues or profitable operations from the sale of any of its products or technologies.

The Company is a development stage pharmaceutical company that is focused on developing compounds intended for neonatal use in critical care hospital settings. The Company is also developing its lead product candidate, Surfaxin(R), for the treatment of various critical care respiratory conditions. The Company anticipates that during the next 12 months it will conduct substantial research and development of its compounds. The Company's ability to achieve its business objectives during the 12-month period is dependent on the Company's ability to realize additional financing or corporate partnering.

SURFAXIN(R) (lucinactant)

Meconium Aspiration Syndrome (MAS)

The Company recently finished a Phase 2 clinical trial in MAS in full-term newborns. This 22-patient trial showed an improvement in oxygenation parameters and a three-day savings on mechanical ventilation. Based on the results of this trial, the Company is planning a pivotal Phase 3 trial in MAS. This trial is expected to be a multi-centered, randomized trial versus patients on standard of care since there are no FDA approved therapies available to treat MAS. An Orphan Products Development Grant awarded to the Company by the FDA Office of Orphan Products Development is expected to contribute significantly to the costs of this trial. This indication has received Fast Track designation from the FDA.

Respiratory Distress Syndrome in premature infants (IRDS)

The Company is currently planning to commence a Phase 3 clinical trial of SurfaxinO for the treatment of IRDS in premature infants during 2000. Such trial, and any other clinical trials of the Company's products in development that have not yet commenced, will require the receipt of approvals by the United States Food and Drug Administration (the "FDA") and/or world health authorities. There can be no assurance as to the receipt or the timing of such approvals.

Acute Lung Injury/Acute Respiratory Distress Syndrome (ALI/ARDS)

A pivotal Phase 2/3 clinical trial of SurfaxinO for the treatment of ALI/ARDS was commenced on July 14, 1998. All of the 43 clinical sites identified by the Company for participation in the ALI/ARDS trial have completed all internal review board and other approvals relating to the original protocol for the trial. The protocol was recently amended and the Company is in the process of obtaining internal review board approvals relating to the amended protocol. The Company will not be able to complete this trial until it obtains a corporate partner or raises substantial additional financing.

SUPERVENT(TM) (tyloxapol)

Cystic Fibrosis (CF)

The Company has completed a Phase 1 trial in normal healthy volunteers and has determined a dose (1.25%) that did not produce significant adverse effects. A Phase 2A trial in CF patients was recently initiated where the intent is to show inhibition of inflammatory pulmonary events in these patients. The Company has received a grant from the CF Foundation that will cover a significant portion of the costs of the trial. This Phase 2A trial is expected to be completed in the next several months. If positive, the Company will likely initiate a larger Phase 2 trial in CF as well as a new Phase 2 trial in chronic bronchitis.

DSC-103 (Vitamin D analog)

Postmenopausal Osteoporosis

On December 5, 1997 a Phase 1 clinical study of DSC-103 (formerly known as ST-630) as a once-daily, orally administered drug for the treatment of postmenopausal osteoporosis in the United States was initiated. Part B of such trial was commenced on April 2, 1998 and was successfully completed on June 29, 1998. On July 30, 1999 the Company entered into a licensing agreement for DSC-103 with YuYu Industrial Company, Ltd. (YuYu), of Korea under which YuYu was granted a license for the territory of Korea. The sublicense agreement is royalty based and includes small upfront fees and milestone payments. As part of the agreement, YuYu has agreed to an exclusive supply agreement whereby they will purchase DSC-103 drug substance from the Company. The Company intends to seek to develop DSC-103 through a corporate partnering arrangement rather than directly.

Liquidity

The Company's working capital requirements will depend upon numerous factors, including, without limitation, progress of the Company's research and development programs, preclinical and clinical testing, timing and cost of obtaining regulatory approvals, levels of resources that the Company devotes to the development of manufacturing and marketing capabilities, technological advances, status of competitors and the ability of the Company to establish collaborative arrangements with other organizations. During March and April, 1999, the Company received proceeds totaling $1 million from a private equity financing with existing investors. On July 29, the Company completed a second private placement totaling $2.45 million through a private placement of equity. In addition, subsequent to the end of the quarter, the Company has received an additional equity investment from Laboratorios Dr. Esteve in conjunction with the Sublicense and Securities Purchase Agreements dated as of October 28, 1999. The Company will be required to raise additional capital in order to meet its business objectives, and there can be no assurance that it will be successful in doing so or, in general, that the Company will be able to achieve its business objectives. The Company believes that its current resources will permit it to meet its business objectives until the third quarter of 2000. In the event that the Company does not achieve certain financing and/or corporate partnering objectives, the Company intends to reduce its use of cash.

Year 2000 Compliance

With the new millenium approaching, many institutions around the world are reviewing and modifying their computer systems to ensure that they are Year 2000 compliant. The issue, in general terms, is that many existing computer systems and microprocessors with data functions use only two digits to identify a year in the date field with the assumption that the first two digits are always "19". Consequently, on January 1, 2000, computers that are not Year 2000 compliant may read the year as 1900. Systems that calculate, compare or sort using the incorrect date may malfunction.

The Company is working to resolve the potential impact of the Year 2000 on the ability of its computerized information systems to accurately process date-sensitive information. The systems include database, networking and accounting software licensed by the Company. The Company does not use equipment with embedded chip technology that is date sensitive. The Company has completed its assessment of its internal operations and has Company has been advised by the vendors of its office and networking software that these systems are Year 2000 compliant. The Company has previously been advised that its accounting software package is Year 2000 compliant. If such software does not in fact prove to be Year 2000 compliant, the Company would experience temporary administrative disruptions but such disruptions would not threaten or materially interfere with the Company's drug development activities.

The Company has made inquiries of suppliers and other third parties with whom it has significant business relationships in order to determine whether such third parties have undertaken measures to ensure that their information technology systems will be Year 2000 compliant insofar as the Company is concerned. These third parties include contract manufacturing facilities utilized by the Company to produce SurfaxinO and SuperVentTM, contract laboratories at which stability testing of raw drug product is performed, facilities at which the Company's clinical trials are being undertaken and the Company's transfer agent. The Company has confirmed Year 2000 compliant status of all contract manufacturing and contract laboratory facilities utilized by the Company. The evaluation of its clinical trial sites is nearing completion. The potential consequences of a Year 2000 compliance failure on the part of a hospital or other facility participating in the Company's clinical trials range from the possible need to eliminate data points generated by specific facilities to delay in completion and evaluation of such trials, and could also result in a need for further dialogue with the FDA regarding clinical trial integrity if a significant problem were to emerge.

The Company's Year 2000 project is substantially complete. Assuming that the Company is not required to incur transfer costs as a result of any failure of its vendors to achieve Year 2000 compliance in a timely fashion, the Company anticipates that the cost of implementing its Year 2000 program will be limited to out-of-pocket costs related to making inquiries of, and receiving and reviewing confirmations from, third parties. The Company currently estimates that such costs will not exceed $10,000.

The Company has purchased back-up electrical generators to ensure that temperature sensitive materials that are critical to the Company's drug development efforts will not be harmed by any power outages at its Doylestown, Pennsylvania facility. Although not purchased with a view toward Year 2000-related risks, these generators are available to address any interruptions in electrical service related to Year 2000 compliance problems experienced by local utilities. The Company has developed contingency plans to address any other Year 2000 compliance risks that are uncovered by its continuing evaluation efforts.

Safe Harbor Statement Under the Private Securities Litigation Act of 1996

Certain statements set forth in this report, including, without limitation, statements concerning the Company's research and development programs, the possibility of submitting regulatory filings for the Company's products under development, the seeking of collaboration arrangements with pharmaceutical companies or others to develop, manufacture and market products, the research and development of particular compounds and technologies and the period of time for which the Company's existing resources will enable the Company to fund its operations, are forward-looking statements. All such statements involve significant risks and uncertainties. Actual results may differ materially from those contemplated in the forward looking statements as a result of risks and uncertainties, including but not limited to the following: the Company's ability to obtain substantial additional funds; the uncertainties inherent in the process of developing products of the kind being developed by the Company; the Company's ability to establish additional collaborative and licensing arrangements and the degree of success of the Company's collaboration partners; the Company's ability to obtain and maintain all necessary patents or licenses; the Company's ability to demonstrate the safety and efficacy of product candidates and to receive required regulatory approvals; the Company's ability to meet obligations and required milestones under its license agreement; the Company's ability to compete successfully against other products and to market products in a profitable manner; and other risks and uncertainties set forth in the Company's filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES.

On July 29, 1999, the Company received $2.45 million in gross proceeds when it completed a private offering of Units (the "Unit Offering"), at a per Unit price of $500,000, consisting of (a) 413,223 shares of the Company's Common Stock, par value $0.001 per share (the "Common Stock"), which was determined by dividing $500,000 by $1.21, which was the average closing bid price of the Common Stock for the five trading days immediately preceding the Closing Date (the "Closing Bid Price"), and (b) an equal number of the Company's Class D Warrants, each of which entitles the holder thereof to purchase a share of Common Stock at any time prior to the close of business on July 27, 2004 at a per share purchase price equal to 110% of the Closing Bid Price. Pursuant to a placement agency agreement with the Company, Paramount Capital, Inc. ("Paramount"), which acted as placement agent with respect to the Unit Offering, received $171,500 in cash commissions and was reimbursed for certain expenses incurred by Paramount in connection with the Unit Offering. In addition, Paramount received options (the "Placement Options") to acquire 0.49 Units at a per Unit exercise price of $550,000 as partial compensation for its services in connection with the Unit Offering.

Investors in a financing completed in April 1999 (the "April Financing") had purchased 531,914 aggregate shares of Common Stock at a purchase price of $1.88 per share and Class C Warrants exercisable for the purchase of 531,914 aggregate shares of Common Stock at an exercise price of $2.30 per share for seven years for an aggregate purchase price of $1,000,000. Pursuant to price adjustment provisions included in the April Financing, as a consequence of the Unit Offering, investors in the April Financing received an aggregate of 294,529 additional shares of Common Stock and an additional 37,110 Class C Warrants for no additional consideration and the per share exercise price applicable to the Class C Warrants has been reduced from $2.30 to $2.15.

Pursuant to an agreement entered into on October 28, 1999, the Company issued 317,164 shares of Common Stock to Laboratorios P.E.N., S.A. at a price of $2.68 per share (based on a 50% premium over the average closing price for the 10 days prior to the closing date) for aggregate proceeds of $850,000. The shares of Common Stock were issued to Laboratorios P.E.N., S.A. in connection with the Sublicense Agreement with Laboratorios Del Dr. Esteve, S.A. ("Laboratorios Dr. Esteve") described under "Item 5. Other Information."

In accordance with a Sublease Agreement entered into on April 1, 1999, the Company issued 2,350 shares of Common Stock to Yi Tuan & Brunstein, on July 5, 1999, as payment for the second quarterly rent.

For each of the issuances described above, the securities received by investors were deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof because such issuance did not involve a public offering. Investors in each financing represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities certificates issued in such transactions. The investors in each financing had adequate access to information about the Company. Moreover, such investors represented to the Company, and the Company believed, that they were experienced in financial matters.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

On October 28, 1999, the Company entered into a Sublicense Agreement with Laboratorios Dr. Esteve under which Laboratorios Dr. Esteve was granted a sublicense for the Company's lead product, Surfaxin(R), for the territories of Spain, Andorra, Portugal, Greece, Central and South America (the "Licensed Territory"). In addition, Dr. Esteve was granted an option to acquire a sublicense for Italy. Under the Sublicense Agreement, Laboratorios Dr. Esteve paid the Company $750,000 as an up front license fee and payment for the Company furnishing a supply of Surfaxin(R) for use in the clinical trials. Laboratorios Dr. Esteve is also responsible for

conducting a Phase II clinical trial in ARDS/ALI and Phase III clinical trial in IRDS in the Licensed Territory. The Company is responsible for regulatory filing in the Licensed Territory. Under a separate Supply Agreement, Laboratorios Dr. Esteve agreed to purchase from the Company its requirements of Surfaxin(R) during the term of the Sublicense Agreement.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

4.1	Form of Class D Warrant in conjunction with Unit Offering (incorporated by reference to the Company's 8-K filed on August 9, 1999.)
10.1	Form of Subscription Agreement in conjunction with Unit Offering (incorporated by reference to the Company's 8-K filed on August 9, 1999.)
10.2	Form of Option Agreement dated September 30, 1999, issued to each of the executive officers of the Company.
27.1	Financial Data Schedule.

(b) Reports on Form 8-K:

None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Discovery Laboratories, Inc.
(Registrant)

Date: November 15, 1999

/s/ Robert J. Capetola

Robert J. Capetola, Ph.D.
President/Chief Executive Officer

Date: November 15, 1999

/s/ Evan Myrianthopoulos

Evan Myrianthopoulos
Vice President, Finance
(Principal Financial Officer)

Date: November 15, 1999

/s/ Cynthia Davis

Cynthia Davis
Controller
(Principal Accounting Officer)

DISCOVERY LABORATORIES, INC.
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock, par value $0.001 per share, of Discovery Laboratories, Inc. (the "Corporation"):

Optionee: _____

Grant Date: September 30, 1999

Exercise Price: $1.38

Number of Option Shares: _____ shares

Expiration Date: September 29, 2009

Type of Option: Incentive Stock Option

Date Exercisable: September 30, 1999, subject to vesting as described below.

Vesting Schedule: The Option Shares shall initially be unvested and subject to repurchase by the Corporation at the Exercise Price paid per share. The Corporation's repurchase right shall lapse with respect to, and Optionee shall vest in, all of the Option Shares according to the following schedule:

- 50% of the grant options shall vest in the event the average closing price of Discovery Common Stock (DSCO) for any 20 consecutive trading days is at least $4.

- 100% in the event that the Corporation consummates a transaction having a total Value (as defined in the Stock Option Agreement) of at least $20 million and involving the development, clinical testing, regulatory approval, manufacturing and/or marketing of a portfolio compound of the Corporation jointly with a business entity not affiliated with the Corporation. In no event shall any additional Option Shares vest after Optionee's cessation of service.

Optionee understands and agrees to be bound by the terms of the Option as set forth in the Stock Option Agreement attached hereto as Exhibit A. Optionee understands and agrees that the Option is granted subject to and in accordance with the terms of the Corporations's 1998 Stock Incentive Plan (the "Plan") attached hereto as Exhibit B.

No Employment or Service Contract. Nothing in this Notice shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any parent or subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service in accordance with applicable law or the Employment Agreement.

REPURCHASE RIGHTS. OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL BE SUBJECT TO A REPURCHASE RIGHT EXERCISABLE BY THE CORPORATION AND ITS ASSIGNS. THE TERMS OF SUCH RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

Definitions. All capitalized terms used and not otherwise defined in this Notice shall have the meaning assigned to them in this Notice or in the Stock Option Agreement.

DATED: September 30, 1999

DISCOVERY LABORATORIES, INC.

By: /s/ Robert J. Capetola
_____
Robert J. Capetola, Ph.D.
President

_____
_____, OPTIONEE

Address:
_____

_____

Attachments:

Exhibit A - Stock Option Agreement
Exhibit B - 1998 Stock Incentive Plan

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This schedule contains summary financial information extracted from 10-QSB
and is qualified in its entirety by reference to such financial statements.

000946486
Discovery Laboratories, Inc.
1
U.S. DOLLARS

3-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
1
1,688,000
1,405,000
53,000
0
575,000
3,734,000
604,000
(166,000)
4,190,000
542,000
0
2,430,000
2,000
9,000
1,207,000
4,190,000
0
0
0
0
827,000
0
0
(723,000)
0
0
0
0
0
(723,000)
(0.09)
(0.09)